

Minutes of an additional meeting of the Actuarial Council held on Monday 7 March 2016 at the FRC Office, 8th Floor, 125 London Wall, London EC2Y 5AS

Present:

Olivia Dickson Chair of Council
Rosemary Beaver
Martin Burke
Angela Darlington (by conference call to minute 4)
Ashok Gupta
David Hindley
Howard Jacobs
Joanne Livingstone
Martin Miles
Dominic Veney

Observer:

Des Hudson IFoA

In attendance:

Francesca Carter Council Secretary
Faye Dyce Project Director, Actuarial Policy Team
Robert Inglis Project Director, Actuarial Policy Team
Melanie McLaren Executive Director, Codes & Standards
Ann Muldoon Director, Actuarial Policy Team
Natasha Regan Project Director, Actuarial Policy Team

1. Minutes of the previous meeting and rolling actions

- 1.1 The minutes of the Actuarial Council meeting held on 26 January 2016 were approved as an accurate record of the meeting.
- 1.2 The Council considered the rolling action log. It was noted that:
- The IFoA is progressing its work in respect of Group Think and that the JFAR are due to consider an IFoA paper on the topic at its March meeting. Melanie McLaren (MM) confirmed that an update would be provided to the Council in due course.
 - The concerns raised by CALM actuaries in respect of the extension of scope of TAS 100 have, to a significant extent, been addressed by the proposed revisions to the TAS Framework and TAS 100. Des Hudson (DH) reported that the IFoA had met with the CALM actuaries to discuss their concerns and, on the basis that the concerns were less significant, it had been agreed that the IFoA will issue some guidance but that the guidance will be wider in scope than the concerns the CALM actuaries identified.

2. Technical Actuarial Standards Framework Consultation

- 2.1 Robert Inglis (RI) introduced the proposed Feedback Statement on the *Consultation: A new Framework for Technical Actuarial Standards* and the review drafts of the *Framework for FRC*

technical actuarial standards and *TAS 100: Principles for Technical Actuarial Work* for final review. RI reported that subject to the Council's advice, the three documents would be presented to the Codes & Standards Committee on 16 March and the FRC Board on 14 April for approval to be issued.

- 2.2 RI summarised the changes that had been made to the documents in response to discussions at the 7 January and 26 January Council meetings. The Council supported the amendments, including the revised definition of technical actuarial work, and identified a number of further minor amendments to be considered in finalising the documents.
- 2.3 Ann Muldoon (AM) invited the Council to consider a concern that had been raised in respect of compliance statements for technical actuarial work that underpin decisions which, although are of significance to the user, are not Reserved Work and do not fall within the scope of the Specific TASs. The Council noted that removal of the general requirement for a statement of compliance with TAS 100 (as in the exposure draft) means that technical actuarial work that supports significant decisions by a Board or Trustees does not require a compliance statement. AM reported that examples could include M&A work, the pricing of large individual risks and capital raising activities.
- 2.4 The Council acknowledged the concern and considered a proposal to amend the disclosure requirement as set out in the revised TAS 100 to include an additional requirement that communications for work that is significant to the user shall include a statement confirming compliance with TAS 100. Through discussion the following points and comments were made:
- The approach needs to be consistent with principles based regulation and be proportionate.
 - It would be overly onerous, and inconsistent with the deregulatory agenda, to reinstate the requirement for all technical actuarial work to include a statement of compliance with TAS 100.
 - It would not be appropriate to require negative assurance where an actuary has not complied with TAS 100.
 - The objectives of requiring a compliance statement are to provide positive reassurance that the TASs have been complied with and therefore, that the work meets a minimum level of quality, and to mitigate the risk of non-compliance. It was suggested that the compliance statement also assists with enforceability.
 - In the deregulatory environment, it might be appropriate to put some of the onus on to the user to ask whether or not the work on which the user is making decisions has been prepared in accordance with the TASs. However, it was suggested this would be inconsistent with the Reliability Objective and the professional obligations of the actuary.
- 2.5 The Council requested that the executive explore amending the wording to address the Council's concerns including giving thought to a compliance statement in situations where the user requires it or where it is deemed appropriate. The Council requested that the proposed wording, with supporting rationale, be circulated to the Council for approval.
- 2.6 RI undertook to update the documents to reflect the advice given by the Council and to circulate proposed wording in respect of the compliance statement requirement. Subject to those amendments the Council confirmed its advice to the Codes & Standards Committee and FRC Board that the Feedback Statement, the FRC Framework for Actuarial Standards and the *TAS 100: Principles for Technical Actuarial Work* be issued.

3. Specific Technical Actuarial Standards Consultation

3.1 RI introduced a suite of papers which included the proposed consultation cover paper; proposed annexes and exposure drafts for TAS 200: Insurance, TAS 300: Pensions, TAS 400: Funeral Plan Trusts and the *Glossary of defined terms used in FRC technical actuarial standards*. RI reported that the documents had been updated to reflect feedback from Council members and from practitioner working groups. RI reported that the level of engagement from the practitioner working groups had been high and that the feedback had been encouraging. RI invited the Council to consider and provide advice in respect of each document. Through discussion the following observations were made and advice was given:

3.2 Consultation cover paper

3.2.1 The Council noted and supported the key changes that had been made to the consultation cover paper since the 26 January Council meeting. The Council particularly welcomed inclusion of the more detailed risk assessment matrices for the insurance and pensions TASs.

Introduction

3.2.2 The Council suggested that the opening paragraphs to the consultation cover paper should be reordered to place greater emphasis on the proposed changes and the benefits those changes will bring. The Council also suggested that greater emphasis should be placed on the fact that the Specific TASs are risk based and therefore, it could be expected that the Specific TASs will mitigate risks arising from technical actuarial work where there is a risk to the public interest.

Impact assessment (IA)

3.2.3 The Council suggested greater emphasis should be placed on the benefits that will flow from the revisions to the Specific TASs. It was suggested the benefits include:

- targeted and proportionate standard setting;
- greater clarity as to what is expected of actuaries which will result in a reduction of time and effort on the part of the actuary;
- reduction / mitigation of risk to the public interest;
- up to date standards that are consistent with the requirements of Solvency II.

3.2.4 MM reported that, from 6 April 2016, the FRC will be subject to the requirements of the Enterprise Act and will be held to account in respect of the impact the introduction of standards will have on business. On the basis that it would be beneficial to gather evidence to support an assessment of the impact the introduction of the revised TAS Framework the Council supported the proposal to include a question in the consultation document seeking respondents' views on expected costs.

3.2.5 The Council discussed to what extent the IA should refer to TAS 100. In noting that the Framework, TAS 100 and the Specific TASs form a package, the Council suggested that the executive explore whether the impact assessment for the Framework and TAS 100 should be consolidated into or otherwise referenced in the impact assessment for the Specific TASs.

Design principles

3.2.6 The Council supported the design principles subject to some changes and supported the proposal to include a question on the design principles in the consultation document.

Risk assessment process and matrices

3.2.7 RI invited the Council to consider the generic points raised by members of the practitioner working groups and the suggestion that the specific TASs would not be needed if the provisions of TAS 100 were strengthened in certain areas. Following a brief discussion the Council reaffirmed its view that the three revised specific TASs are appropriate and that extending the provisions in TAS 100 to cover requirements in relation to specific areas of work covered in the Specific TASs would be overly onerous and a 'one size fits all' approach would risk being disproportionate in respect of work of lower risk to the public interest

3.3 TAS 200: Insurance

3.3.1 The Council noted a summary of the points raised by the practitioner working groups and through discussion with the Chief Actuaries Forum at the ABI, Lloyds Actuaries and HMRC. The Council supported the changes that had been made to respond to the feedback received; specifically:

- The inclusion of technical actuarial work relating to pricing frameworks within the scope of TAS 200.
- Amendments to the wording to clarify that whilst Section 166 reports would not fall within the scope of TAS 200, TAS 100 will still apply.
- The inclusion of a requirement for any changes in management actions under stressed scenarios to be articulated and the introduction of a provision relating to the forward looking requirements of the ORSA.

3.3.2 The Council supported proposals to:

- Require an actuary undertaking work to support an auditor to document any variances from the initial scope of the work, on the basis that the work of the actuary supporting the auditor is very specific in nature and the requirement supports the equivalent requirement of the auditor.
- Update the definition of insurance as set out in the glossary to include 'reinsurance' subject to a cross check to all references throughout the TAS framework to ensure the revised definition is 'workable' throughout.

3.3.3 AM undertook to consider the suggestions put forward and to update TAS 200 accordingly.

3.4 TAS 300: Pensions

3.4.1 RI reported that it is expected that the revised Institutions for Occupational Retirement Provisions (IORP II) will be published in 2016 for implementation in 2018. In order to implement the requirements of the IORP Directive into UK Law it is likely that there will be a new Pensions Act. The Council noted that there is potential that TAS 300 would have to be updated to reflect new requirements.

3.4.2 The Council discussed a view put forward by the Association of Consulting Actuaries (ACA) that technical actuarial work underpinning advice to an employer in relation to Scheme Funding should be included in the scope of TAS 300. The Council noted the ACA's concern that, in some situations, the actuarial work for an employer can be very influential and can shape negotiations with the trustees. However, the Council considered the requirement for the technical actuarial work for trustees to comply with TAS 300 combined with the requirement for technical actuarial work underpinning advice to an employer to comply with TAS 100 is sufficient.

3.4.3 To ensure the risk identified is appropriately monitored the Council suggested that it would be helpful to separate out, on the risk assessment matrix, work undertaken for trustees and work undertaken for employers. The Council also suggested it would be helpful to include a question in the consultation document on whether it would be appropriate for the underpinning work for an employer in relation to Scheme Funding to be in the scope of TAS 300. .

3.4.4 The Council noted the remaining points raised by the practitioner working group and supported the approaches taken in responding to the feedback. It was agreed that any detailed drafting amendments from Council members would be circulated to the executive outside of the meeting.

3.5 TAS 400: Funeral Plan Trusts

3.5.1 The Council noted that feedback from the stakeholders was supportive. The Council noted and supported the small number of minor amendments that had been made to TAS 400 since it was discussed at the 26 January Council meeting.

3.6 Glossary

3.6.1 The Council supported the amendments that had been made to the glossary to reflect the changes to the Specific TASs and the revised definition of technical actuarial work.

3.7 Next steps

3.7.1 DHu confirmed that the IFoA is content with the references to the IFoA in the suite of documents considered and undertook to provide formal written confirmation.

3.7.2 It was agreed that, in light of time constraints, the documents would be updated to reflect the advice of the Council prior to submission to the CSC on 16 March, and that, final documents, reflecting both the advice of the Council and the CSC would be circulated to the Council for approval in advance of presentation to the FRC Board on 14 April. It was also agreed that, should any significant issues come to the attention of the executive, the Council would be reconvened to consider the issue(s) before providing its advice to the FRC Board.

4. Council Effectiveness Review Findings – Chairs note

4.1 The Chair thanked Council members for completing the effectiveness review survey and invited the Council to consider a paper summarising the findings of the review and proposed actions.

4.2 The Council considered the paper and supported the proposed actions. The Council suggested that it would be useful to feed the Council's horizon scanning work in to a programme for training / education sessions. The executive undertook to action this suggestion.

5. Any other business

5.1 The Council noted that Natasha Regan would be leaving the FRC at the end of the month. The Council thanked Ms Regan for her contributions to the work of the FRC, in particular her work on the Risk Perspective document. The Council wished Ms Regan well for her future.